



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 16, 2009

Natural Gas Price Low after Stock Price Low

Summary and Recommendation

Natural gas price may have set its low for the cycle on January 15. If so, it follows the low for oil set in late December and for stock prices of oil and gas income and small cap stocks set in November and early December. It is a fact that those lows have held so far. It can only be an opinion that those lows would hold longer. Even if it takes longer to set the lows, we are confident in the appealing investment value offered in our buy recommendations **Canadian Oil Sands Trust (COSWF)**, **Cimarex (XEC)**, and **Hugoton Royalty Trust (HGT)**. In case it does take longer before an uptrend resumes, our remaining recommendations are rated hold, including **Penn West Energy Trust (PWE)**, **Encore Acquisition (EAC)** and **San Juan Basin Royalty Trust (SJT)**. Similarly, unrated stocks in our coverage that also have low McDep Ratios offer long-term value for an investor to capture today subject to the risk of delayed gratification. Latest median McDep Ratio for seventeen stocks is 0.65 (see Table 1). Median Distribution Yield estimated for the next twelve months for thirteen income stocks is 8.9% (see Table 3).

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Table 1								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		15-Jan 2009	Shares (mm)				
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		7.76	249.0	1,930	16.00	0.32	0.65
Penn West Energy Trust	PWE	H	11.99	389.9	4,670	27.00	0.27	0.60
Enerplus Resources Fund	ERF		21.58	164.9	3,560	44.00	0.10	0.54
Canadian Oil Sands Trust	COSWF	B	16.37	482.0	7,890	42.00	0.04	0.42
<i>Total or Median</i>					18,100		0.19	0.57
Small Cap Independent Producers								
Encore Acquisition Company	EAC	H	25.82	53.5	1,380	48.00	0.36	0.70
Berry Petroleum Company	BRY	H	6.83	45.5	310	40.00	0.43	0.53
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.27	117.0	500	10.00	0.14	0.51
Cimarex Energy Company	XEC	B	25.25	84.5	2,130	70.00	0.09	0.42
<i>Total or Median</i>					4,320		0.25	0.52
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		40.49	14.6	590	47.00	-	0.86
San Juan Basin Royalty Trust	SJT	H	27.19	46.6	1,270	34.00	-	0.80
Permian Basin RT	PBT		14.25	46.6	660	19.00	-	0.75
Cross Timbers Royalty Trust	CRT		30.00	6.0	180	42.00	-	0.71
Hugoton Royalty Trust	HGT	B	16.24	40.0	650	28.00	-	0.58
Mesa Royalty Trust	MTR		38.44	1.9	70	67.00	-	0.58
<i>Total or Median</i>					3,420			0.73
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.95	114.0	1,820	14.00	0.52	1.07
Encore Energy Partners, L.P. (32%)	ENP		14.08	10.6	150	19.00	0.23	0.80
Dorchester Minerals, L.P.	DMLP		17.88	28.2	510	24.00	-	0.75
<i>Total or Median</i>					2,480		0.23	0.80
B = Buy, H = Hold								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$10 a million btu for natural gas.								



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Ebitda Margin (%)
	Symbol/ Rating		15-Jan 2009	NTM	NTM	NTM	NTM	
Canadian Income Trusts (US\$)								
	Canadian Oil Sands Trust	COSWF	B	16.37	23.3	25.2	10.5	42
	Pengrowth Energy Trust	PGH		7.76	9.5	11.8	7.7	70
	Enerplus Resources Fund	ERF		21.58	10.6	11.8	6.4	74
	Penn West Energy Trust	PWE	H	11.99	7.7	10.1	6.0	75
	<i>Median</i>				10.0	11.8	7.0	72
Small Cap Independent Producers								
	Birchcliff Energy Ltd. (US\$)	BIR.TO		4.27	6.9	19.8	10.1	73
	Encore Acquisition Company	EAC		25.82	13.4	12.8	9.0	53
	Berry Petroleum Company	BRY		6.83	9.6	11.3	6.2	60
	Cimarex Energy Company	XEC		25.25	7.4	10.6	4.4	58
	<i>Median</i>				8.5	12.1	7.5	59
U.S. Royalty Trusts								
	San Juan Basin Royalty Trust	SJT	H	27.19	10.8	19.4	15.5	19.4
	Sabine Royalty Trust	SBR		40.49	9.2	14.5	12.4	12.4
	Cross Timbers Royalty Trust	CRT		30.00	14.5	16.4	11.7	12.3
	Permian Basin RT	PBT		14.25	8.8	15.4	11.6	13.4
	Hugoton RoyaltyTrust	HGT	B	16.24	13.1	14.6	8.5	12.2
	Mesa RoyaltyTrust	MTR		38.44	21.1	14.6	8.4	9.6
	<i>Median</i>				12.0	15.0	11.6	12.4
U.S. Master Limited Partnerships (MLPs)								
	Linn Energy, LLC	LINE		15.95	13.6	10.7	11.4	70
	Dorchester Minerals, L.P.	DMLP		17.88	8.5	15.3	11.4	20.2
	Encore Energy Partners, L.P.	ENP		14.08	12.7	13.3	10.6	70
	<i>Median</i>				12.7	13.3	11.4	20.2
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Next Twelve Months Distribution Yield								
			Natural					
	Revenue	Gas		Dist/				Dist.
Symbol	Royalty	%	Dist/	Equity	NTM Distribution			Yield
	(%)	NPV	Ebitda	Ebitda	(\$mm)	(\$/un)		(%)
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	-	0.47	0.49	395	0.82	5.0
Enerplus Resources Fund	ERF	-	55	0.61	0.67	416	2.52	11.7
Penn West Energy Trust	PWE	-	28	0.55	0.76	787	2.02	16.8
Pengrowth Energy Trust	PGH	-	34	0.86	1.27	427	1.72	22.1
<i>Total or Median</i>			31	0.58	0.72	2,000		14.3
Small Cap Independent Producers								
Birchcliff Energy Ltd. (US\$)	BIR.TO	-	75	-	-	-	-	-
Encore Acquisition Company	EAC	-	18	-	-	-	-	-
Cimarex Energy Company	XEC	-	65	0.03	0.04	20	0.24	1.0
Berry Petroleum Company	BRY	-	42	0.05	0.08	14	0.30	4.4
<i>Total or Median</i>			53					
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	100	0.80	0.80	65	1.40	5.1
Permian Basin RT	PBT	32	33	0.86	0.86	49	1.06	7.4
Sabine Royalty Trust	SBR	100	54	1.00	1.00	47	3.25	8.0
Cross Timbers Royalty Trust	CRT	84	76	0.95	0.95	15	2.43	8.1
Hugoton RoyaltyTrust	HGT	-	91	0.69	0.69	53	1.33	8.2
Mesa RoyaltyTrust	MTR	-	75	0.87	0.87	7	4.00	10.4
<i>Total or Median</i>			76	0.87	0.87	240		8.1
U.S. Master Limited Partnerships (MLPs)								
Dorchester Minerals, L.P.	DMLP	64	68	1.01	1.01	45	1.59	8.9
Encore Energy Partners, L.P.	ENP		30	0.93	1.21	18	1.73	12.3
Linn Energy, LLC	LINE		48	0.92	1.92	287	2.52	15.8
<i>Total or Median</i>			48	0.93	1.21	350		12.3
NTM = Next Twelve Months Ended December 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								



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